GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2870
ANSWERED ON:07.12.2001
FEDERAL RESERVE`S PENALTY ON SBI
AMBATI BRAHMANAIAH;RAVINDRA KUMAR PANDEY;YEMPARALA VENKATESWARA RAO

Will the Minister of FINANCE be pleased to state:

(a) whether US Federal and State Banking regulators have asked SBI to tighten internal reporting and auditing system and appoint an independent firm to review its US operations;

(b) if so, the details thereof and other observations/charges made by the US Federal Reserve;

(c) whether after the issue of the orders SBI will not be able to accept new funds from NRI`s and others;

(d) if so, the details of the loss likely to be suffered by the SBI thereafter; and

(e) the steps taken by the Government to resolve the issue with US authorities and avoid the recurrence of such incidents ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a)&(b): State Bank of India (SBI) has reported that the Regulatory Authorities in USA had conducted inspection of its New York cluster branches as on 31st March, 2001. The regulators had pointed out certain deficiencies in the systems & procedures and tools for monitoring mechanism, `Know Your Customer and Enhanced Due Diligence` procedures, especially in the areas of remittances, funds transfer and inter-office accounts. Based thereon, as per a recent order the US regulators have asked it to appoint an independent firm to review its US operations and also to appoint a new internal audit firm to conduct an internal audit of its US offices`.

(c)&(d): SBI has reported that it shall have to confirm to certain enhanced due diligence procedures as per the order before accepting new funds from NRIs and that it is unlikely to suffer any loss on this account.

(e): SBI has assured the regulators in USA that the desired improvements in systems and technology and procedures at its New York branch will be carried out as per the stipulation given by the regulators and will be subject of special monitoring at the highest level in the Bank in India. Appointments of Chief Compliance Officer, Chief Financial Officer, internal Auditor and Consultants as desired by the Regulators will be made in the shortest possible time. Government of India is in consultation with SBI in this regard and the matter is also being taken up with the US authorities through diplomatic channels.